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BUSINESS RELOCATIONS OUT OF

SAN FRANCISCO

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Mayor's Office of Housing and Economic Development

for

Board of Supervisors, City and County of San Francisco

Table of Contents

Executive Summary

- As many as 100 corporate branch, regional, and support office operations have moved out of San Francisco, primarily to the East Bay, resulting in significant job loss to the City.

- Following a long running trend for urban areas in California, San Francisco also lost manufacturing operations. San Francisco's employment profile reflects the national transition from a manufacturing to a service economy.

- These business relocations have occurred within an economic environment of increased national and international competition, deregulation of key industries, and corporate mergers and acquisitions.

- High cost of space and lack of suitable space for expansion were the reasons most often cited for business relocations out of San Francisco. Other factors such as the need to consolidate operations in a large facility, room for future expansion, proximity to technical and professional employees anxious for a shorter commute, also contributed to relocation decisions.

- The current relocation of large corporate operations is in large part the result of decisions made several years ago when the downtown office vacancy rate was virtually nonexistent and large-scale suburban business parks were being developed.

- The cost of space, at least temporarily, appears to be of relative less importance as vacancy rates rise and prices decline; however, a perceived "anti-business attitude" in San Francisco appears to be of increasing concern.

- To initiate an effective business retention strategy, local government must focus on factors over which it has some control -- such as negative business attitudes and costs -- and avoid spending time and resources on factors outside the community -- corporate mergers for example.

- For this reason, it is recommended that the City (1) establish a mechanism to assess the impact of City policy on the local business community, and in relation to local and regional economic trends; (2) undertake a program of incentives directed to targeted business sectors to assist these businesses to expand and to attract new businesses; and (3) facilitate and reduce some of the City-controlled costs of development of appropriate space for light industrial, R&D and support office operations.

Business Relocations Out of San Francisco

Beginning in 1980, and continuing at a more rapid pace during the past 2-3 years, a number of corporate branch, regional, and support/"back office" operations have relocated out of San Francisco, primarily to East Bay and other locations in the Bay Area.

Surveys of business relocations conducted by the San Francisco Chamber of Commerce and Pacific Properties Group, a private development company, indicate that between 1984-86, as many as 100 companies would relocate part, and, in some cases, all of their operations outside the City, resulting in a loss of 24-25,000 jobs.

Most notable among the recent corporate relocations are: the electronic banking and support operations of Bank of America to Concord (3,500 jobs); the satellite headquarters of Pacific Bell to San Ramon (5,000 jobs); and the computer services and overseas petroleum divisions of Chevron to San Ramon (1,250 jobs).

Reflecting a long running national trend, San Francisco has also experienced a loss in manufacturing operations. California Economic Development Department data indicates that between January, 1980 - June 1984, San Francisco lost 84 manufacturing plants, resulting in a loss of 5,524 "blue collar" jobs. This decline in manufacturing operations followed a trend experienced by most other urban areas of the state. According to EDD, San Francisco ranked sixth in terms of manufacturing plant closures, behind the counties of Los Angeles, Alameda, Orange, Santa Clara, and San Diego.

II. Overall Economic Trends

It is important to view these relocations in the context of the overall economic environment for the businesses involved. Large, traditional companies, in general, are facing increased competition both nationally and internationally, and, in response, are becoming leaner and (hopefully) more competitive. Large corporate and manufacturing concerns face competition from aggressive innovative, smaller businesses, and, in turn, are trimming staffs and overhead.

Undeniably, deregulation has affected several key industries in San Francisco, particularly banking, health services, and communications. The increased competition in these industries favors streamlined operations and aggressive strategies for reducing costs and maximizing profit potential. A review of the types of firms which have relocated and consolidated operations outside San Francisco indicates that financial services, health and insurance, and communications companies comprise a major portion of the list of relocations.

Less significant in terms of job losses in San Francisco, but more publicized, has been the rapid growth of both population and jobs in southern California. With a population of nearly 15 million (vs. 5.5 million in the Bay Area), the greater Los Angeles area offers a large and growing market for businesses of all kinds, particularly those in need of horizontal space. In fact, there appears to be little loss of jobs from San Francisco to Los Angeles; the fact that, other than the operations of three smaller banks (Morgan Guaranty, Philippine National Bank, and Bank of Tokyo), few significant moves of major businesses from S.F. to L.A. have taken place in the last five years.

The spate of recent corporate mergers has been and may continue to be a factor in future relocations or workforce reductions. The Chamber of Commerce has noted, for example, that a number of larger companies based in San Francisco are being acquired by companies based outside California.

Of the 50 largest publicly held corporations in the Bay Area in 1974, 23 are now owned by another company or were liquidated. Among the largest San Francisco firms which have been acquired are Crown Zellerbach, Southern Pacific, Fireman's Fund, Del Monte, Utah International, and, most recently, Crocker National Bank by Wells Fargo.

With respect to manufacturing operations, State Economic Development Department and County Business Pattern data indicate that traditional blue collar occupations -- craftsmen and kindred workers, operatives, and laborers -- have experienced a steady decline in San Francisco <u>and</u> most other larger, urban areas over the past 30 years.

It is clear that the U.S. economy is now service dominated. By 1980, more persons were engaged in trading goods than in manufacturing them. Between 1981-85, services and trade sectors accounted for nearly all of the nation's employment increase. San Francisco's employment picture mirrors this fact.

III. Specific Reasons for Relocation

Beyond general economic trends, what are some of the specific reasons why companies are moving operations out of San Francisco?

Obviously, a number of factors contributed to the decision of corporate firms to relocate, but the reasons most often cited are the high cost of space and the lack of suitable space for expansion.

It appears that the current relocation of larger corporate operations to the East Bay, such as Bank of America, Chevron, and Pacific Bell, is the result of decisions made several years ago when downtown San Francisco was at capacity and space was costly. In 1980 available office space in San Francisco was almost nonexistent, with a vacancy rate of 0.1%. At the same time, business park developments rapidly sprang up in the suburbs - driven by federal tax legislation which provided enormous incentives for real estate investment, the resultant availability of large sums of investment capital, and the availability of large, underdeveloped parcels of land.

These alternative large-scale business park developments provided what was perceived to be lower cost space and room for future expansion. In addition, the low to mid-rise design and large floor plate configurations of the developments are ideally suited to the horizontal organization and "mass production" character of computerized back office and support service functions.

The Mayor's Office of Housing and Economic Development interviewed nearly 40 firms regarding their reasons for relocating operations out of San Francisco. Cost of space and suitability of space together were cited by 36 of the 39 respondents (92%). Future expansion plans and consolidation of operations each were cited by 9 respondents (23%). Labor force proximity was cited by 8 respondents (20.5%). Other factors mentioned less frequently were housing costs, high local taxes, and parking.

The results of MOHED's survey are tabulated as follows:

SUMMARY OF INTERVIEWS

Total Number of Companies Interviewed: 39

Factors Influencing Decision to Relocate	Frequency of Response (Number of Times Factor Identified)	Percentage Of Respondents
Cost of Space	23	58%
Suitability of Space	13	33%
Expansion Plans	9	23%
Consolidation of Operations	9	23%
Proximity to Labor Force	8	20.5%
Housing Costs	5	12.8%
High Local Taxes	4	10%
Parking	4	10%
Safety	1	2.5%

The cost of space factor is best illustrated in the words of a Bank of America spokesperson: "Our studies show that rents in the suburbs are about one-third less. Recently rents in San Francisco have come down, but they've also come down in the outlying suburbs, and the proportion remains the same." The Bank of America estimates that it will save $12-15 million annually as a result of the "back office" move to Concord. It should be noted that most relocation decisions are effectively made at least 2-3 years in advance of the move, and must reflect market conditions in effect at that time.

On the suitability of space issue, a Fireman's Fund spokesperson stated, regarding their 1982 move to Novato: "We needed a low-rise building with a large floor plate for additional expansion, and we found the City had no such space available."

Regarding consolidation, a research economist at the University of California, Berkeley Center for Real Estate and Urban Economics observed that San Francisco companies found they could assemble entire operations groups under one roof in the suburban location, something often difficult to do in San Francisco.

This was one factor in Pacific Bell's move to San Ramon, and a major factor in Bank of America's decision to build a technology center: "Our move to Concord occurred because the bank needed to consolidate operations that were scattered among 16 separate locations in San Francisco. This was bad for morale and productivity. The move also worked very well because 34% of our labor force already lived in the East Bay."

With respect to labor force considerations, it is important to note that one of the key appeals of a suburban/metropolitan fringe location versus a central city location is the corporate perception that a large-scale, skilled labor force can be readily assembled. As with so many other economic analyses, the role of the baby boom cannot be discounted. A recent report issued by the Center for Urban Research at Rutgers University notes, "The baby boom was born in suburbia, raised in suburbia, settled in suburbia and now works in suburbia, tales of gentrification and yuppies notwithstanding. Given the dominance of this suburban generation, it is not surprising that its employers would relocate accordingly." Again, UC Berkeley's research economist reports that San Francisco companies found that many of their technical and professional employees preferred suburban work environments and wanted to commute less.

That finding, however, is somewhat at variance with the statistical profile of San Francisco's labor force, which is among the youngest, best-educated, and best-trained in the nation. Twenty-eight percent (28%) of the City's population has completed at least 4 years of college, which ranks it second out of the top 100 cities in the U.S. in its share of college graduates.

The results of MOHED's survey are similar to those of others completed recently. Companies surveyed by Pacific Properties Group also cited a variety of reasons for moving, including lower rental rates, a larger selection of low-rise office buildings suitable for back-office operations, the availability of a large labor pool anxious for a shorter commute, and the perceived "anti-business" attitude of San Francisco. The anti-business climate perception now appears to be of increasing concern, while the cost of space, at least temporarily, appears to be of relatively less importance.

A survey completed by the Bay Area Council and Gruen Gruen & Associates in May, 1984, canvassed 103 major corporations throughout the Bay Area who had moved or were planning to move all or portions of their operations. The results of the survey ranked factors that were found to influence decisions to relocate. In order of importance, the "attracting factors" are:

1. Low cost and high suitability of land or building.
2. Abundant supply of professional and skilled labor.
3. Positive image and prestige of location.
4. Good transportation and short commute time for workers.
5. Positive governmental attitudes towards business and industry.

The "repelling factors" in order of importance are:

1. High cost and low suitability of land or building.
2. Negative governmental attitudes towards business and industry.
3. High cost of housing.
4. High cost of labor.
5. Poor transportation and long commute time for workers.

Interestingly, these results are similar to those obtained in surveys of manufacturers to identify factors important in locating new plants or expanding existing facilities.

Most blue collar businesses are no longer dependent on a central city location. Diseconomies of central city locations are usually cited as reasons for relocation (e.g. high rents, inability to easily expand, need for increasing space requirements, congested transportation), along with the supply and cost of labor.

However, certain light industrial firms, interviewed by MOHED staff, have indicated a strong desire to stay if they are not displaced by high rents and competition with commercial office space. These are firms which serve a local market, such as printing, small metal working operations, and construction. Historical ties to the city, proximity to mass transit, freeways and airport, and proximity to customers are cited as positive factors influencing their decision to remain in San Francisco.

IV. APPROACH TO BUSINESS RETENTION AND ATTRACTION

The experience of successful business retention efforts in other areas -- including New York, New Jersey, Kentucky, Texas, California, among others -- indicates that, to be effective, the City must first identify business wants, needs and perceptions and then demonstrate to the business community that the City is concerned about its problems and will respond with positive action.

However, it is important at the outset to distinguish between those instances when a business retention program could be effective and those when it cannot. Again, experience of other retention programs indicates that, when the principal reason for a particular business relocation lies within the community, local government can take positive actions to affect the negative factors which influence the location decision. On the other hand, when the primary reason for a relocation relates to problems within the company or factors outside the community, as with a corporate merger, for example, local government cannot correct the problems and, logically, should not spend valuable time and resources trying to do so. In this latter instance, efforts would be better spent on measures to at least partially offset the impact of the relocation -- attracting new business, for example.

The Bay Area Council survey of location decision factors cited previously in this report indicates the significant degree to which the area's business climate is shaped by intangible or subjective factors, as well as by specific economic ones. "Negative government attitudes toward business and industry" was consistently found among the top-ranked factors influencing locational decisions of Bay Area firms. This is an example of a factor within the community that theoretically can be addressed.

For the above-cited reasons, the recommendations presented in this report propose as a first measure an assessment of the impact of City policy on the business community, in relation to local and regional economic trends, and actions to improve the overall business climate.

It is proposed that the City undertake a program to assist existing businesses to expand and to attract new businesses, supported by specific incentives directed to selected sectors in the business community.

It is further proposed that the City take actions designed to facilitate development of suitable space, reduce some of the costs of new development and expansion, and thereby reduce the cost of space to end-users.

V. RECOMMENDATIONS

A. IDENTIFICATION OF WAYS TO IMPROVE BUSINESS CLIMATE

1. Assess the cumulative financial impact of City policy on the business community.

   Designate an appropriate City Agency to be responsible for making recommendations to the Board of Supervisors concerning the effect of proposed legislation on the climate for job retention and attraction in the City.

2. Examine the aggregate economic trends in the City, and assess against City policies.

   Designate an appropriate City agency to be responsible for tracking overall economic trends and for making recommendation to the Board of Supervisors concerning proposed measures and their relation to identified trends.

3. Continue development with the Chamber of Commerce of business attraction materials aimed at targeted businesses.

The Mayor's Office is nearing completion of a business attraction brochure, including an overview of competitive advantages, local markets, labor, resources, and business development opportunities to be supported by Chamber of Commerce resource publications and other information tailored to specific requests. These efforts should be continued and targeted to specific industries, sites and opportunities.

B. BUSINESS INCENTIVES

4. Reduce the Payroll/gross receipts tax to targeted new/expanding businesses in San Francisco for a specified period of time to encourage business location, expansion, and new hiring.

Supervisor Renne has introduced such an ordinance, which is currently being refined with the offices of MOHED, the City Attorney and the tax collector.

5. Continue to provide low-cost financing for expanding small businesses which create new jobs to assist with facilities, equipment and relocation expenses.

The City currently provides financing through the Small Business Revolving Loan Fund, IDB, UDAG, and SBA real estate programs, which are managed by MOHED. Recipients execute a First Source Referral Agreement to provide new job opportunities to residents.

6. Promote skills training programs to match the employment needs of developing and expanding business sectors.

C. DEVELOPMENT ASSISTANCE

7. Facilitate the future development of lower-rise, larger floor plate office space in Mission Bay and the South of Market areas.

8. Facilitate the development of light industrial/R&D space in select areas of the City, such as Mission Bay, South of Market and Bayview/Hunters Point.

(The Department of City Planning and SFRA are in the process of conducting an economic survey of the Bayview/Hunters Point area to determine market potential and identify appropriate sites for industrial and commercial development.)

9. Review planning/building codes and recommend changes in codes that adversely impact targeted light industrial development in select areas of the City, such as Bayview/Hunters Point.

10. Examine opportunities to improve building permit process for small business projects below a certain size.

This could take the form of an "express window" or some other such measure to expedite acceptance and review of application.